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Different Types of Expenses and Their Effects on Profitability Enhancement: Empirical Evidence from Food and Allied Industries of Bangladesh

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Abstract: Due to their fragile financial structure and very competitive market circumstances, the food and allied sectors require effective cost control solutions. In this context, the study's goals were to investigate the operational costs of the food and related industries and how they affect the improvement of profitability by firm size and business sector. This study contributes to look at the impact of different types of expenses on profit after tax. Unbalanced Panel data from 14 Food and allied companies was gathered for this study, which spanned the years 2009 to 2023. This paper employed the 2SLS and GMM model. This study found that cost of goods sold, operating expense, administrative expense and finance expense have the significant positive relationship with profit after tax. Sophisticated cost-cutting abilities, such as balancing productivity and revenues while limiting quality adverse effects, are essential to improving the operational performance of the food and related industries. Additionally, because economies of scale reduce expenses, business size has an effect. However, in order to increase earnings, owners of food and allied industries, particularly major companies, should think about enhancing food quality rather than depending solely on the benefits of advertising.

Keywords: Profit after tax; Cost of goods sold; Operating expenses; Administrative expense; Marketing and Selling expense; Finance Expense
JEL Classification: F21, F23, J23, J32

I. INTRODUCTION

In order to attain the best results in terms of profitability and overall organizational success, outsourcing projects must be strategically managed, as [5] highlighted the complex dynamics of outsourcing and its effects on corporate performance. [4] conducted a study using multivariate regression, with interest, salary, and provision expenditures as independent factors and Net Profit Margin (NMF), Return on Equity (ROE), and Return on Assets (ROA) as dependent variables. The ability of the organization to sustain its profit year after year is referred to as profitability. According to the linear regression model, only one of the independent factors has an effect on the

other two dependent variables, although two dependent variables significantly affect one of the dependent variables. [3] shown that internal failure costs have a negative and substantial impact on PT. Sang Hyang Seri's (Persero) profitability, but the costs of preventive and appraisal have a partial positive and non-significant impact. However, external failure costs have a negligible negative impact on profitability. [2] stated that setting standards and upholding performance in accordance with them is how cost control is carried out since, as management strives to boost productivity for more profit, costs will rise, and each area of responsibility will be responsible for collecting them. The purpose of their research was to explain how cost control may be implemented successfully to control expenditures and boost rather than decrease profitability. [1] demonstrated that, in contrast to the traditional paradigm, cost-to-serve assessment yields precise and complete customer information that permits a more thorough customer profitability analysis. [6] stated that the Coca-Cola Company has increased its profitability by implementing a cost-control plan, but there are still deadly risks to its profitability, such as the poor use of its assets to make money and IRS disputes. [7] discovered that distinct data is taken out for pricing considerations and for profitability calculations. The results of the study also show that businesses employ a hierarchy of profit metrics in their quarterly profitability analysis reports and that the primary function of profitability analysis is to draw attention to the need for more thorough research.

The empirical model and estimation methods are discussed in the next section. In Section 2, we reviewed the related literature. In Section 3, explains our empirical findings. Finally, we provide some closing observations in the last part.

II. LITERATURE REVIEW

[8] showed that standard costing has a major beneficial impact on cost reduction. Additionally, it was noted that a company's profit rises in proportion to its use of standard costing. [9] found that the growth of Fintechs (FTI), banks' assets (TA), interest-bearing asset profitability (NIM), credit risks (NPL), and cost control (CTI) are all positively correlated with banks' profitability (ROE). (2) The influence of fintechs on banks' profitability is "U" shaped.

[10] stated that an understanding of the evolving function of process control in operations and profit/loss metrics is beneficial. Even if process control has the greatest influence on corporate decision-making today, there are still a lot of obstacles that need to be overcome if it is to optimize its financial impact throughout the whole organization.

[11] stated that the business had sustained positive operating profit and consistent growth up to 2021, when revenue increased but profit indicators did not increase as much as anticipated, unlike in previous years. The cost of sales was primarily impacted by the volatility and unavailability of foreign exchange, which also had an effect on the price of raw materials and other manufacturing inputs. In comparison to previous years, distribution and administrative costs stayed constant and even decreased in 2021. [16] stated that cost advantage, cost leadership, and cost efficiency are all favorably impacted by strategic cost management. He added that cost advantage is positively correlated with cost leadership and cost efficiency; and cost efficiency has a favorable impact on firm profitability. Furthermore, the links between strategic cost management and company profitability can only be mediated by cost efficiency. [32] stated that using cost-cutting strategies has increased organizational profitability. On the basis of this, the research suggested that the firm use linear programming (LP) methodologies to ensure that components and raw materials are purchased on time to satisfy production and sales requirements. [14] showed a strong positive correlation between financial control systems and business profitability. It was suggested that manufacturing companies use appropriate and reliable control methods in order to continually enhance their application of financial control procedures. [13] found that there is a significant amount of cost inefficiency in the life insurance sector in comparison to earnings, and inefficiency has a negative correlation with profitability metrics like return on equity. According to organizational structure and inefficiency research, stock (shareholder-owned) businesses are just as lucrative and efficient as mutual (policyholder-owned) businesses.

[12] stated that Cost-effective banks are more lucrative during the epidemic. Furthermore, they discovered that robust financial success is linked to revenue diversification. In order to maintain sustainable and robust financial performance during times of crisis when interest revenues are sticky, our findings add to the body of literature by suggesting that bank management implement aggressive expense control and revenue diversification techniques.

[23] demonstrated a substantial inverse association between Malaysian commercial banks' performance and non-performing loans (NPLs) and cost effectiveness. However, the performance of Malaysian commercial banks is found to be significantly positively correlated with bank size. The article outlines a number of strategic and policy consequences, including the need to continue managing credit risk, reducing non-core lending operations, improving system transparency, controlling costs, and enacting more forgiving anti-trust and competition laws.

[22] showed that macroeconomic factors and financial market structure have an impact on the profitability of banks, both local and international, in addition to the unique features of individual institutions. Although their effects and relationships with earnings are not necessarily the same for domestic and international banks, all the variables—aside from concentration in the case of domestic banks' profits—are relevant. In order to demonstrate how efficient cost control may boost profitability, [21] looked at different cost structures and how they affect pricing tactics. It also looks into how operational effectiveness and economies of scale might lower expenses while increasing output. Best techniques for maximizing profit margins while preserving competitive pricing are identified by the research using case studies from a variety of sectors and empirical data analysis. The ultimate goal of this effort is to give companies a thorough framework for evaluating their financial performance and making wise decisions that promote long-term success. [20] showed that at the 0.01 significant level, there was a 0.601 association between inventory management procedures and profitability. He suggested that inventory control procedures and industrial and business profitability are positively and significantly correlated. With an R square value of 0.361, changes in inventory control procedures may account for 36.1% of the associated variance in profitability.

[19] stated profitability and cost stickiness were shown to be negatively and significantly correlated in his study. He suggested that enterprises are unable to control selling, general, and administrative (SG&A) expenses, which eventually results in decreased earnings. Additionally, there is a positive correlation between business size and profitability, meaning that larger firms are more profitable than smaller ones, and a negative correlation between leverage and profitability, meaning that corporations have more debt. [18] showed that all predicting factors were significantly explaining profitability. Additionally, an alluring result of expenditure preference behavior is the interplay between cost effectiveness and bank operations within the macroeconomic context of each nation. In order to satisfy all stakeholders, they promoted prioritizing cost efficiency, which has the potential to achieve both greater returns and the use of existing resources.

[17] showed that financial management techniques and the profitability of SMEs are positively correlated, but that this link is unaffected by agency cost as a moderator.

[24] demonstrated the importance of corporate governance practices in emerging nations. However, not every aspect of corporate governance is important. According to some research, CEO duality has no discernible effect on a company's financial success, but board features and ownership structure improve it. We emphasize that the company's stability cannot be replaced by such procedures. [25] stated that the primary subjects, factors, and indices associated with demand-side flexibility profitability analysis. Along with the impact of energy markets, pricing, and standards on revenue maximization. The review's results show that the structure of the energy market, the assets involved, the cost of power, and the compensation currently paid for ancillary services all have a significant impact on how profitable flexibility services are.

[26] presented an examination of hotel profitability using financial data from 27 hotel firms that operate in Tunisia. Managerial efficiency is demonstrated to be significant while maintaining geographical and operating contracts as constants using Data Envelopment Analysis (DEA) and Return On Assets (ROA) analysis. However, the profitability of hotels is significantly impacted by these two factors. Other factors that have an impact include hotel size, debt levels, crisis event exposure, and managers' educational backgrounds.

[27] stated that full-service restaurants may face significant challenges due to high prime costs, such as food and salary expenses, which might result in lesser profitability when compared to their limited-service counterparts. Enhancing full-service restaurants' operational performance requires advanced cost-cutting techniques, such as limiting quality degradation while balancing productivity and revenues.

[28] did an empirical analysis of the variables influencing Spanish banks' profitability between 1999 and 2009. We come to the conclusion that a high proportion of loans in total assets, a high proportion of client deposits, strong efficiency, and a low ratio of questionable assets are all linked to the high bank profitability throughout these years. Furthermore, the bank's return is also increased by greater capital ratios, but only if return on assets (ROA) is employed as the profitability metric. There is no indication of scale or scope economies or diseconomies in the Spanish banking industry. Lastly, our analysis shows that commercial and savings banks operate differently.

III. METHODS

This paper conducted an exploratory analysis by using the following data and techniques.

Data:

Secondary unbalanced panel data of 14 food and allied companies during the period of 2009-2023 is compiled from the websites of those companies. The data comprises the

information of 15 years of 14 food and allied companies that considers 11 variables. Among these, 13 variables, 1 dependent variable, 5 control variables and 5 independent variables.

Methods:

This paper conducted a step-by-step model-based combined analysis. At first, the Two Stage Least Square model (2SLS) model is used to outline the relationship between PAT and some variables related to investment in assets among the 14 food and allied companies in Bangladesh. Then Generalized Method of Moments model (GMM) is employed to determine the relationship between PAT and same variables mentioned above.

Variables and description:

SL	Name	Type	Source	Description
1	LnPAT	Dependent	Annual Report	Log normal of Profit after tax
2	LnTA	Control	Annual Report	Log normal of Total Assets
3	LnTR	Control	Annual Report	Log normal of Total Revenue
4	LnTE	Control	Annual Report	Log normal of Total Equity
5	LnSC	Control	Annual Report	Log normal of Share Capital
6	LnRE	Control	Annual Report	Log normal of Retained Earnings
7	LnCOGS	Explanatory	Annual Report	Log normal of Cost of goods sold
8	LnOE	Explanatory	Annual Report	Log normal of Operating expenses
9	LnADMIN	Explanatory	Annual Report	Log normal of Administrative expense
10	LnMSD	Explanatory	Annual Report	Log normal of Marketing Selling and Distribution expense
11	LnFIN	Explanatory	Annual Report	Log normal of Finance Expense

IV. RESULTS AND DISCUSSION

This study investigates how variation in expenses incurred (i.e., cost of goods sold, operating expenses, administrative expenses, marketing selling and distribution expenses, finance expenses) is associated with profit after tax in selected companies. We used the Two Stage Least Square (2SLS) model to estimate this association.

In column (1) in Table 1, we estimate a baseline model with only the control variables, such as total assets, total revenue, total equity, share capital and retained earnings. The control variables generally have the predicted indications, where total asset has significant positive coefficients. Share capital and retained earnings coefficients are negative and statistically significant in all models. According to earlier research, a firm's operational efficiency is significantly moderated by its size [35, 36]. Generally speaking, big businesses are superior to small

businesses in terms of market strength, economies of scale, managerial know-how, and financial resource accessibility [37].

In other words, small businesses may be at a competitive disadvantage when it comes to managing their human resources, budgetary restrictions, and bargaining power with suppliers and customers. Since small businesses may better serve certain market segments by providing specialized goods or superior customer service, they should focus on these clients or markets rather than competing with bigger businesses in order to overcome these inherent challenges [36].

This study uses five proxies of expenses incurred, such as cost of goods sold expense, operating expense, administrative expense, marketing selling and distribution expense, finance expense. [33] stated that the cost of raw materials (CoRM) and profit before taxes for Nigerian manufacturing firms were shown to be significantly correlated negatively. Their study came to the conclusion that, over the reviewed period, cost containment significantly improved the profitability of Nigerian manufacturing enterprises. As a result, proper raw material management and alternate sourcing are advised.

In Table 1, columns (2), (3), (4), (5) and (6) show five proxies for measuring incurred expenses: such as cost of goods sold, operating expenses, administrative expenses, marketing selling and distribution expenses, finance expense. Other than control variables, in column (2) shows that cost of goods sold have significant positive relationship with profit after tax. In column (3) shows operating expense has significant positive relationship with profit after tax. In column (4) shows administrative expense has significant positive relationship with profit after tax. In column (6) shows finance charge has significant positive relationship with profit after tax in 2SLS model.

[32] indicated that the function of materials management must be recognized, and it has been proposed that a company must correctly execute the materials management aim described in this study in order to become profitable. All costs necessary to sell goods, such as rent, utilities, insurance, fees, etc., are included in selling, general and administrative expenses. Since the fixed cost per unit falls as sales rise, the connection between selling, general and administrative expenditures and sales is negative in manufacturing businesses, where the majority of selling, general and administrative expenses are roughly fixed [29]. Because of this, [30] proposed that either an extraordinary sales effort or ineffective cost control is the cause of a disproportionate growth in selling, general and administrative expenditures over sales. Similarly, [31] demonstrated that a rise in the selling, general and administrative cost ratio indicated negative profitability in the future. Similarly, when a food company expands, its selling, general and administrative expense ratios would not

increase much. As a result, selling, general and administrative expenditures need to resemble variable costs. Consequently, this study anticipated that higher selling, general and administrative expenditures would have a detrimental impact on company profitability.

Table 1. Panel 2SLS (IV) Estimation Results

	(1)	(2)	(3)	(4)	(5)	(6)
LnTA	.895** *	.938** *	.922** *	.928** *	.885** *	.896** *
	(3.27)	(3.50)	(3.50)	(3.39)	(3.20)	(3.39)
LnTR	.041	-.09	-.044	.034	.004	-.01
	(0.24)	(-0.60)	(-0.31)	(0.24)	(0.03)	(-0.07)
LnTE	.285	.503**	.424**	.391*	.419*	.399**
	(1.22)	(2.41)	(2.14)	(1.91)	(1.90)	(2.02)
LnSC	-.282**	-.461*	-.424**	-.485**	-.429**	-.425**
	(-1.35)	(-2.42)	(-2.29)	(-2.41)	(-2.12)	(-2.28)
LnRE	-.08	-.074**	-.076**	-.06*	-.059*	-.08**
	(-2.26)	(-2.13)	(-2.24)	(-1.72)	(-1.66)	(-2.32)
LnCOGS	-.058	.102** *				
	(-0.59)	(2.65)				
LnOE	.16		.134** *			
	(1.18)		(3.25)			
LnADMIN	-.047			.06*		
	(-0.68)			(1.75)		
LnMSD	-.029				.028	
	(-0.65)				(0.93)	
LnFIN	.112					.135** *
	(0.75)					(3.14)
Observations	105.000	105.000	105.000	105.000	105.000	105.000
Mean dependent var	17.125	17.125	17.125	17.125	17.125	17.125
SD dependent var	2.615	2.615	2.615	2.615	2.615	2.615
R-squared	0.485	0.453	0.471	0.431	0.419	0.467
F-test	8.865	13.513	14.533	12.394	11.771	14.334
Prob> F	0.000	0.000	0.000	0.000	0.000	0.000

t-statistics in parentheses

***, ** and * denote significance at 1, 5 and 10% respectively

Table 2. GMM Estimation Results

	(1)	(2)	(3)	(4)	(5)	(6)
L.LnPAT	.026 (0.23)	.019 (0.18)	.019 (0.18)	.018 (0.17)	.02 (0.18)	.025 (0.23)
LnTA	2.398* (4.50)	2.384* (4.65)	2.38* (4.68)	2.377* (4.64)	2.401* (4.71)	2.384* (4.69)
LnTR	.325 (0.77)	.248 (0.65)	.254 (0.67)	.254 (0.66)	.319 (0.83)	.271 (0.71)
LnTE	.244 (0.55)	.287 (0.70)	.29 (0.71)	.291 (0.71)	.25 (0.61)	.262 (0.64)
LnSC	-1.511* (-1.66)	-1.528* (-1.75)	-1.513* (-1.75)	-1.502* (-1.72)	-1.579* (-1.84)	-1.496* (-1.73)
LnRE	.02 (0.29)	.01 (0.16)	.012 (0.19)	.012 (0.19)	.017 (0.29)	.01 (0.16)
LnCOGS	-.221 (-0.43)	.074 (1.28)				
LnOE	.091 (0.32)		.083 (1.37)			
LnADMIN	.091 (0.15)			.088 (1.33)		
LnMSD	.029 (0.20)				.073 (1.29)	
LnFIN	.116 (0.39)					.085 (1.39)
Observations	62.000	62.000	62.000	62.000	62.000	62.000
Mean dependent var	17.266	17.266	17.266	17.266	17.266	17.266
SD dependent var	2.731	2.731	2.731	2.731	2.731	2.731
Chi-square	30.896	32.581	33.080	32.771	32.396	33.008
Prob > chi2						

t-statistics in parentheses

***, ** and * denote significance at 1, 5 and 10% respectively

V. CONCLUSION

This study analyzed the factors that affect profitability in Food & Allied industries. The study used a dataset spanning 15 years and using 2SLS and GMM models for analysis. The results indicate that the factors influencing profitability

differ greatly depending on the industry. Efficient utilization of expenses in the Food & Allied industry is essential, with a focus on operating expense control. These findings emphasize the necessity of using industry-specific approaches in asset management and financial planning. Managers should customize their strategies according to the distinct attributes of their industry, while policymakers should cultivate conditions that promote effective utilization of resources and optimization of operations. While the study offers significant insights, it is recommended that future research expands its reach to encompass new industries and investigates more dynamic economic conditions.

Implications: These findings have significant practical consequences for managers, industry stakeholders, and policymakers. Managers should customize financial strategies based on the unique attributes of each industry, as indicated by the results. Emphasizing expense management rather than capital spending can improve profitability in areas such as Food & Allied. The study emphasizes the significance for policymakers to establish a legislative framework that fosters a conducive climate for enterprises to enhance operational efficiencies. This may entail implementing measures that enhance financial accessibility, foster optimal asset utilization, and stimulate innovation in inventory management and capital allocation strategies.

Constraints and Prospects for Further Investigation: Although this study offers useful insights into the elements that determine profitability in key industries in Bangladesh, it is also subject to certain limitations. The utilization of a dataset spanning 15 years may not encompass all the fluctuating changes in the economic environment, and the concentration on food and allied industries restricts the applicability of the conclusions to all sectors. Future study has the potential to broaden its focus by incorporating supplementary industries, investigating various time periods, and employing alternative econometric models to capture more intricate processes. The study improves comprehension of factors that contribute to profitability in Bangladesh, emphasizing the significance of tailored strategies for various industries to promote long-lasting growth.

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